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CONFIDENTIAL.

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PART XI

FURTHER CORRESPONDENCE

RESPECTING THE

FINANCES OF TURKEY.

1890.

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CONFIDENTIAL.

Further Correspondence respecting the Finances of Turkey.

Part X.

No. 1.

Foreign Office to Mr. Caillard.

Sir, *Foreign Office, January* 3, 1890.

I AM directed by the Marquis of Salisbury to acknowledge the receipt of your letter of the 18th ultimo, upon the subject of the recent negotiations between the Porte and the Administration of the Ottoman Public Debt in connection with the new Treaties of Commerce.

I am, &c.
(Signed) P. CURRIE.

No. 2.

Sir W. White to the Marquis of Salisbury.—(Received January 10.)

(No. 10.)

My Lord, *Constantinople, January* 5, 1890.

IN my despatch No. 83, Secret, of the 28th February of last year I had the honour to report to your Lordship the efforts made by M. de Nélidoff to obtain the payment by the Ottoman Government of the arrears of the indemnity arising from the late Russo-Turkish war, which formed the subject of the agreement come to between the two Governments on the 14th May, 1882.

Your Lordship will remember that there was a conflict of opinion between M. de Nélidoff and the Ottoman Government as to the total of the arrears which had accrued during the year ending 1st (13th) March, 1889, M. de Nélidoff claiming £ T. 250,000, while the Grand Vizier recognized the liability of the Ottoman Government to a sum of only £ T. 100,000 as due over and above the £ T. 600,000 of arrears already existing.

This sum was eventually fixed at a total of £ T. 845,000.

I have now the honour to inform your Lordship that during the past year the payments towards the Russian war indemnity have been made with far greater regularity than hitherto, since of the annuity of £ T. 350,000 a sum of £ T. 210,000 had already been paid on the 23rd December of last year, leaving a balance due of £ T. 140,000, which, I understand, has been promised before the 1st (13th) March, 1890.

Of the additional annuity of £ T. 100,000 to which the Sublime Porte pledged itself in the year 1888 in order to pay off the arrears which had already accumulated to a sum total of £ T. 600,000, payments have been made of £ T. 30,000, and it is hoped that the residue may be forthcoming before the close of the financial year.

A further payment of £ T. 274,278 has also been made towards the extinction of the arrears of indemnity due to the Russian Government, but this sum constitutes a fraction of the balance of 27,500,000 fr. due to the Ottoman Government from Baron

de Hirsch in satisfaction of all claims due to the Sublime Porte in connection with the construction and working of the Oriental Railway in Europe, as reported in my despatch No. 79 of the 27th February of last year.

I have, &c.
(Signed) W. A. WHITE.

No. 3.

Sir W. White to the Marquis of Salisbury.—(*Received January* 10.)

(No. 12.)
My Lord, *Constantinople, January* 6, 1890.

I HAVE the honour to transmit herewith, for your Lordship's information, a Table showing the advances which have since 1881 been made to the Ottoman Government, the amount of interest payable thereon, the date when the interests are payable, and the revenue on which the interest and sinking fund are guaranteed.

To this list should be added the sum of £ T. 80,000 advanced by Messrs. Hanson and Giove at the time of obtaining the Firman of Concession for their boracite mine. This sum was an advance on the royalty which would accrue from the boracite exported.

I have, &c.
(Signed) W. A. WHITE.

Inclosure in No. 3.

EMPRUNTS OTTOMANS.

Année.	Emprunts.	Capital Nominal.	Intérêt.	Amortissement.	Annuité.	Échéances.	Garantie.
		£ T.	Pour cent.	Pour cent.	£ T.		
1881 ..	Titres de Priorité	8,170,000	5	1	590,000	1er (13) Mars et 1er (13) Septembre	Six contributions indirectes—tabac, sel, pêcherie, soie, et spiritueux.
1885 ..	Emprunt Chemin de Fer Casaba ..	800,000	7	1	..	..	Part du Gouvernement Ottoman dans les recettes.
1886 ..	Emprunt Chemin de Fer Hirsch ..	1,000,000	5	1	..	..	Part du Gouvernement Ottoman dans les recettes.
1886 ..	Obligations Douanes	6,500,000	5	1	390,000	1er (13) Janvier et 1er (13) Juillet	Revenus des Douanes de Salonique, Smyrne, Beyrouth, Andrinople, et Brousse.
1886 ..	Emprunt Intérieur "Dahlié" ..	250,000	6	4	25,000	31 Mai (12 Juin), 31 Août (12 Septembre), 30 Novembre (12 Décembre), 28 Février (12 Mars)	
1887 ..	Emprunt Intérieur "Tasfié" ..	2,333,333	..	..	..	..	Caimé, accepté par toutes les Caisses de l'Empire en paiement de Verghis, dettes, &c.
		Marks.			Marks.		
1888 ..	Emprunt Kaulla	30,000,000	5	2	2,100,000	1er Mai et 1er Novembre ..	Nouveaux revenus de droits de pêche, permis de chasse, permis de vente du tumbéki; recettes des nouveaux actes soumis au timbre et affectations sur dimes des céréales de Smyrne pour £ T. 30,000.

No. 4.

Sir W. White to the Marquis of Salisbury.—(Received March 7.)

(No. 84. Confidential.) *Constantinople, February* 20, 1890.

My Lord,

ON the receipt of your Lordship's despatch No. 339, Confidential, of the 17th October, 1889, relative to the case of British holders of bonds of the original Turkish Debt declared forfeited on the ground that they were not presented in proper time, I addressed a letter to the Council of Administration of the Public Debt, which I caused to be sent through the Sublime Porte, copy of which I have the honour to inclose.

I have now received a reply from the Porte, inclosing the reply of the Administration which has been sent by the Ministry of Finance, and copy of which is also inclosed.

In this document your Lordship will see that it is stated that due notice was given in proper time in newspapers of all the principal cities of Europe.

It appears, however, rather surprising that the same body of delegates who are intrusted with the purse-strings should be entitled at the same time with the power to exclude from the benefits of the distribution of the funds collected for the purpose of paying all the Ottoman bondholders those amongst them whom the French would call "retardataires."

One might have supposed that some other and more independent machinery ought to have been provided for that purpose.

I have, &c.

(Signed) W. A. WHITE.

Inclosure 1 in No. 4.

Sir W. White to the Council of the Administration of the Ottoman Debt.

Constantinople, November 5, 1889.

HER Majesty's Embassy desires to call the attention of the Council of Administration of the Ottoman Public Debt to complaints which Her Majesty's Government have received of the serious hardship entailed upon numerous British subjects, holders of bonds of the original Turkish Debt, by the alleged forfeiture of these bonds in pursuance of the Notice of the 10th April, 1888.

Her Majesty's Embassy would point out that the period allowed from the publication of the Notice in question for the presentation of bonds for registration or conversion, *i.e.*, from the 10th April to the 13th May, cannot fairly be regarded as sufficiently long, especially as no previous warning appears to have been given or other step taken by the Administration of the Ottoman Public Debt, and that in many cases the bonds were already declared forfeited before their holders were either able to register them or acquainted with the necessity of doing so.

Under these circumstances, Her Majesty's Embassy trusts that the Council of Administration of the Ottoman Public Debt will take into consideration the claims of these bondholders, and will, on grounds of equity, not permit them to be the sufferers by an operation of which it must admit that unduly short notice was given them.

(Signed) W. A. WHITE.

Inclosure 2 in No. 4.

The Ministry of Finance to the Ministry of Foreign Affairs.

(Translation.) *January* 12 (24), 1890 (6 *Djemazi-ul-Akher*, 1307).

I HAVE taken cognizance of your Excellency's letter as well as of the documents accompanying it, and, having referred them to the section of the Public Debt and after a correspondence with the Imperial Commissioner of the Council of the Public Debt, the section answered that although the British Embassy complained that, without giving notice within the necessary time to the holders, bonds of the Ottoman Debt had been annulled, yet that the Council had given notice of one year to the holders of Ottoman bonds to perform the formalities laid down by the Imperial

Government, *i.e.*, from the 30th April (12th May), 1887, to the 1st (13th) May, 1888, and that the Council had, for the first time, published such Notice during 1887 in the newspapers of Constantinople, London, Paris, Amsterdam, Berlin, Brussels, Vienna, and Rome; and from January 1888 up to March of that year, twice a week, was such Notice published, and from beginning of April up to the 13th May, 1888, once a-week, in the newspapers of the above-mentioned towns was such Notice published. And in London such Notice was published on every occasion, and consecutively in the London papers. Such was the information obtained from the Department of the Financial Control.

And the Council therefore is of opinion that the Embassy will acknowledge that every possible delay has been given to the bondholders, and that no "négligence" has been shown on the publication of the Notices, and that the information with regard to the delay being accorded only from the 10th April to the 13th May, 1888, is not well founded.

I have the honour to give your Excellency the above information, and to return the papers.

No. 5.

Mr. Caillard to the Marquis of Salisbury.—(Received March 10.)

My Lord, *Constantinople, March* 4, 1890.

I HAVE not taken the liberty of addressing any notes to your Lordship on Turkish finance for some time past, because there has really been nothing to add on the subject. Agop Pasha, who is, as your Lordship knows, a Minister of great ability and the best intentions, has for the last eighteen months been doing his best to reduce the financial administration to something like order. But although he has certainly greatly improved the central Treasury Department, and has got some of the "Defterdars" (provincial treasurers) more under his own control, although he has to a great extent abolished the old disastrous "havalé" system, has been much more regular in payment of the Russian war indemnity, and has, in general, made the two ends come nearer meeting than any of his predecessors for a long time past, it cannot be said that the financial situation has been so improved, so far, as to be permanently bettered. Agop Pasha's improvements, hitherto effected, are such as will last during his own term of office, and no longer. He has, moreover, the hands of all his colleagues against him, and is thus terribly hampered. We have, however, now in immediate prospect some financial operations, which, if the Government can be induced not to throw the opportunity away, may, I think, be of lasting benefit to the State.

I have had the honour of previously describing to your Lordship what I conceive should be the policy of the Public Debt Administration in this country, namely, whilst endeavouring to set an example, as far as possible, to the Turkish Government, of a model Administration, to quietly concentrate our efforts upon getting more and more financial power in the country into our hands, so that at a given moment, if ever it should arrive, the solution of a difficult problem might be found ready to hand. This end should be, of course, pursued in such a manner as not to arouse the suspicion or jealousy of the Turkish Government in the slightest degree. I am bound to say that my colleagues have not generally agreed with me on this subject, and have been of opinion that the Public Debt Council should confine itself to its duties of collecting the revenues ceded to the bondholders. I have, nevertheless, with the full approval of the late Mr. Bouverie, followed the lines of the policy above sketched as far as I have been able, with the result that our position in the Empire has not only, I believe, become very solid, but that the Public Debt Administration is looked upon by the Government and by European financiers as the natural instrument of the State credit. Thus, we administer the "German Loan" of 1888 and the revenues assigned to guarantee the new railway; and, in case of any special security being required for an advance to the State by the Ottoman Bank, or for State guarantees for any public-work enterprise, it is invariably requested, and the request is never objected to by the Government, that we should step in between the Government and the creditor. Our own revenues have, meanwhile, done so well that the price of Turkish stock has a good deal improved; the Priority stock (a 5 per Cent. stock secured as a first charge on our revenues, and created in 1881 to repay the "Galata bankers") now stands at 96, whereas four years ago it stood at 70; Series (A) Turkish stock stands at 41, whereas four years ago it was at 22. Thus, our position in the State being strong, and

European financiers having confidence in us, the moment seems to have arrived when we may venture without risk on financial operations effecting a change in the debt which we administer, with the object of benefiting at once the bondholders and the Government.

It is therefore proposed to convert the "Priority" stock from a 5 per Cent. stock, with a very large accumulative sinking fund, into a 4 per Cent. stock, with 1 per cent. sinking fund. The whole economy of the operation consists in the reduction of the sinking fund: since no Syndicate would consent to taking Turkish 4 per Cent. stock firm at a higher price than 75, the annuity necessary for interest would be slightly increased. The figures work out as follows (round figures are given):—

	£
"Priority" bonds outstanding	5,841,000
Nominal amount to pay off above at par, supposing the new 4 per Cent. stock be taken firm at 75	7,800,000
Annuity at present served to "Priority" bonds	536,000
Annuity necessary for new stock	390,000
Economy effected	146,000

This economy will be applied to the reduction of the four "Series" of the Turkish Debt, but especially to (B), (C), and (D). It is probable that it may be capitalized, and the cash thus obtained applied to the taking of 10,000,000*l.* of Series (C) and (D) off the market directly, the interest saved on these amortized bonds being applied again to the purchase of Series (B), (C), and (D).

It is proposed at the same time that the Government should simultaneously create 5,000,000*l.* of similar stock to the above, the whole 12,800,000*l.* together forming a first charge on the Public Debt revenues. On the other hand, the Government will make good to the Public Debt Administration the 250,000*l.* necessary for the service of the extra 5,000,000*l.* by the cession of fresh revenues secured to the Administration in the same way as its present revenues. Since the Government could certainly not obtain a better firm price than 60 on its own credit, and the firm price offered to us is 75, we give an advantage to the Government in this way of 750,000*l.*

The ultimate effect of the operation being to postpone the final paying-off of the whole debt, where, it may be asked, are the general advantages of it?

The advantages are:—

1. The Public Debt Administration renders the considerable double service to the Government (*a*) of enabling it to obtain a very considerable sum on credit, and to thus settle some pressing outstanding debts, and to reduce (by an internal conversion) the expenses of the Internal Debt; and (*b*) of greatly improving the State credit, such improvement arising not only by reason of such payments, but as a necessary consequence of a successful conversion of 5 per Cent. Turkish stock.

2. The Public Debt Administration, by rendering these important services to the Government, would still further solidify its position in Turkey, by showing that the bondholders are ready to help the Government when possible, and are not merely creditors insisting on their pound of flesh, and that the Administration is essential to, and an indispensable instrument of, the State credit.

3. The temptation (which, in my opinion, would be almost too strong to resist) would be removed from the Government to make a grab at part of the large annuity of 536,000*l.*, which would, under existing circumstances, come to the bondholders in 1906.

4. The reversionary interest in the 536,000*l.* annuity now served to the Priority bonds would be made immediately available for Turkish bondholders, with a view of improving the value of the stock in their hands by providing additional redemption to that furnished by the Decree, thereby immediately reducing the capital of the debt at a quicker ratio.

5. By thus advancing the interest of all the series in the sinking fund to discount, as it were, to a certain extent the political risk under which all Turkish affairs cannot but remain—in other words, to secure at once part of an advantage which, under existing conditions, being only realizable sixteen years hence, is to that extent hypothetical.

I further believe that by interesting European financiers in a successful operation in Turkish finance, the general reluctance of good houses to come forward in matters of industrial or commercial enterprise in Turkey will be diminished, there will be an impression that affairs are not, after all, quite dead here, and that it is possible still to

do good business in Turkey. Such an impression might, it is clear, have a most beneficial effect, and would, I think, in any case lead to the conversion of other loans which would directly relieve the pressure on the Turkish Treasury.

I have by no means lost sight of the conversion of the "Tribute loans," of which I had the honour, some time ago, of speaking to your Lordship, and hope that, with the aid of Sir Edgar Vincent, who may, by his influence with the Egyptian Government, bring them to a more reasonable view of the matter, it may be possible to carry this out.

I have, &c.
(Signed) VINCENT CAILLARD.

No. 6.

Foreign Office to Messrs. Matheson and Co.

Foreign Office, March 11, 1890.

Gentlemen,

IN my letter of the 22nd August last you were informed that Her Majesty's Ambassador at Constantinople would be instructed to make a suitable representation to the Council of Administration of the Ottoman Public Debt on behalf of British subjects holders of original Turkish bonds which had been declared forfeited on the ground that they had not been presented in proper time for conversion.

I am now directed by the Marquis of Salisbury to transmit to you a copy of the reply which Sir W. White has received from the Turkish Ministry of Finance on the subject.*

It will be seen that it is stated that a year's notice was given to the bondholders of the intended conversion.

I am, &c.
(Signed) P. CURRIE.

No. 7.

E (No. 152.) *Sir W. White to the Marquis of Salisbury.*—(*Received April* 18.)

Constantinople, April 8, 1890.

My Lord,

I HAVE the honour to report to your Lordship that the Sublime Porte has lately been in negotiations for raising a new loan, which have now come to a successful conclusion. I shall have the honour of addressing your Lordship on this subject in a subsequent and separate despatch.

I mention the circumstance in this despatch for the purpose of informing your Lordship that the Russian Embassy has forwarded a note to Saïd Pasha, dated the 7th (19th) March, copy of which I inclose herewith, reiterating their demands for payment of the annual sum of the war indemnity, and towards the arrears which have been gradually accumulating.

From my despatches No. 83, Secret, of the 28th February, 1889, and No. 10 of the 5th January of this year, will have learned how arrears in payment by the Sublime Porte then stood with regard to this indemnity, and I have now the honour to inform your Lordship that up to the 31st December of last year the total amounts of arrears had fallen to £ T. 686,729, which sum, by agreement, is to be paid off by yearly instalments of £ T. 100,000, but towards which the Sublime Porte has only paid for the first quarter of this year £ T. 8,516.

Since the 31st December last till the 31st ultimo a sum of £ T. 86,538 had been paid by the Porte on account of the annual payment of £ T. 350,000, leaving a deficit for the current year of £ T. 263,462.

I have, &c.
(Signed) W. A. WHITE.

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* Inclosure 2 in No. 4.

PUBLIC RECORD OFFICE, LONDON

Inclosure in No. 7.

M. de Nélidow to Saïd Pasha.

Constantinople, le 7 (19) *Mars*, 1890.

M. le Ministre,

PAR ma note du 12 (24) Janvier dernier, j'ai eu l'honneur de relever l'insuffisance absolue du rendement des impôts concédés au service des annuités de l'indemnité de guerre, ainsi que le produit minime qu'avaient donné les assignations nouvelles sur les dîmes d'Alep et de Manouret-el-Aziz, au lieu des £ T. 100,000 annoncées.

Un pareil état de choses devant nécessairement conduire à une augmentation rapide des arriérés, je priais en même temps votre Excellence de me communiquer sans retard les mesures que la Sublime Porte prendrait pour subvenir intégralement à ses obligations dans l'avenir et pour arriver à une extinction à terme du déficit accumulé.

Cette communication est restée sans réponse.

Aujourd'hui j'apprends que le Trésor Ottoman serait sur le point de faire une opération financière qui laisserait entre ses mains un réliquat d'à peu près £ T. 2,000,000, et que ce nouvel emprunt serait garanti par des revenus de Douanes et de dîmes.

En conséquence de ce qui précède je me trouve dans le devoir de demander à votre Excellence :

1. Qu'aucune source de revenu disponible ne soit aliénée avant qu'il ne soit pourvu consciencieusement, par des assignations supplémentaires suffisantes, aux redevances annuelles de la Turquie envers la Russie ; et

2. Si, après pareille assignation, un emprunt était conclu qui ferait entrer dans les Caisses de l'État une somme liquide, que l'amortissement des arriérés de l'indemnité de guerre entre en première ligne dans l'emploi de cette somme.

Veuillez, &c.

(Signé) NÉLIDOW.

No. 8.

Mr. Caillard to the Marquis of Salisbury.—(*Received April* 23.)

Constantinople, April 19, 1890.

My Lord,

IN regard to the letter which I had the honour of addressing your Lordship on the 4th ultimo as to a projected conversion of the Turkish Priority Loan, and the creation of a new loan by the Turkish Government for its own purposes, I have now the honour to inform you that the Turkish Government has approved of the proposals, and the Sultan's sanction obtained. There is a certain modification in regard to the Government Loan to be noted, which is entirely to the advantage of the bondholders.

Your Lordship will recollect that it was proposed, as I informed you in my previous letter, to secure this loan, together with the new 4 per Cent. Privileged Stock, as a first charge on the revenues already ceded to the Debt administration, fresh revenues of the necessary amount being handed over to the latter, in order that the bondholders should not be in any way the losers. But this was, on principle, an objectionable arrangement, and I directed my best efforts to having it altered, with, I am glad to say, complete success. The two operations are now quite distinct, and the new loan (which will be known as the Ottoman 4 per Cent. Loan) is secured upon special revenues handed over to my Administration for the purpose ; the former ceded revenues being left absolutely untouched. In other respects, the matter remains exactly as I described it in my letter, save that the Ottoman 4 per Cent. Loan amounts to 4,495,000*l.* instead of 5,000,000*l.*, and that that part of it taken by the Syndicate is taken firm by it at 76. This addition to the price was possible because the amount taken is small, being 1,372,000*l.* out of 4,495,000*l.*, and was rendered necessary because if the Syndicate had not consented to making the small sacrifice involved, the affair would probably have fallen through, the intrigues against it at the Palace having been considerable. We also made one or two of the conditions of the conversion of the Priority Loan more favourable to the Syndicate in order to help them in this matter, as we were prepared from the commencement to make a little sacrifice in order that the Government might obtain a direct advantage, and that their consent to the scheme might be thus secured.

The only other detail that may be interesting to your Lordship is that the Ottoman 4 per Cent. Loan is to be used as follows : About 2,250,000*l.* are to be applied to the compulsory conversion of various interior issues whose service has been hitherto very irregular and neglected ; about 900,000*l.* remains unissued at the disposal of the Government, and 1,372,000*l.*, as above stated, are taken firm by the Syndicate at 76. I am doing my best that a portion of these two latter sums should be applied to paying off arrears of the Russian War indemnity, the regular payment of which I continue to consider a first political necessity, and I think I shall carry my point.

I trust that your Lordship may not think me exaggerating if I say that this is a great financial success. The best operation ever done before by the Turkish Government was the issue of the 1858 Six per Cent. Loan at 85, for I naturally leave out of consideration the 1855 Loan, jointly guaranteed by France and England. Taking the issue price of the new 4 per Cent. Privileged Bond as 80, which is most probable, since the firm price is 75, the corresponding issue price for a 6 per cent. loan now would be 120. It is true that money is a good deal cheaper now than then, but not to such an extent as that means. Moreover, if we take the loan contracted with the Deutsche Bank by the Turkish Government eighteen months ago, a 5 per cent. loan with 2 per cent. sinking fund, which was taken firm at 70, and compare it with the present Ottoman 4 per Cent. Loan (with 1 per cent. sinking fund), which is secured in precisely the same manner, and is taken firm at 76, it will be seen that the corresponding price of a 5 per cent. loan now would be 91⅓ ; indeed, more, if the greater advantage in the sinking fund of the Deutsche Bank Loan be taken into account, whereas money has relatively grown only slightly cheaper in the time between the two loans. This is all the more striking, that only ten years ago the Turkish Government was still in a state of declared bankruptcy, and could not borrow money at any price.

I believe that I am only stating a fact in saying that this new creation of credit on good terms for Turkey in European markets is almost entirely due to the Administration over which I have the honour to preside, and it is a success of which we may, I think, be not unreasonably proud. The conversion of the 5 per Cent Priority Loan is one favourable to the State, since it allows the amortisation of the debt to be more rapidly proceeded with, and favourable to the bondholders for reasons which I set forth to your Lordship in my previous letter. The issue of the Ottoman 4 per Cent. Loan, administered by the Council of the Public Debt, is of great advantage to the State, for reasons which I have also set forth before, and, so far from laying any new charge on the Government, its service will require an annual sum less by 30,000*l.* than that hitherto inscribed in the Budget for the service alone of the interior loans converted, although the Government keeps about 2,300,000*l.* at its own disposal.

I have, in combination with Ogap Pasha and Sir Edgar Vincent, who is of the greatest assistance, other financial operations in view as a corollary of the above, should peace be maintained. Of these I will keep your Lordship informed in due time as they become ripe for execution.

I have, &c.

(Signed) VINCENT CAILLARD.

No. 9.

Sir E. Vincent to Foreign Office.—(*Received April* 25.)

Paris, April 24, 1890.

Dear Sir Philip,

I INCLOSE copy of a letter which has been addressed to the French Government on the subject of the recent withdrawal of the Imperial Iradé on the conversion. The circumstances appear to warrant energetic action on the part of those interested, while they justify them in appealing to their respective Governments for support at Constantinople.

After prolonged negotiations the Council of Ministers approved a scheme of conversion on the 2nd April. The Sultan made no reply until the 7th April, when he returned the scheme to the Council of Ministers requesting certain modifications in the terms of the Contract, including an increase of the price paid by the Syndicate from 75 to 76 on a portion of the loan. These modifications were accepted. On the 12th the Sultan issued an Iradé approving the conversion.

On the 14th the Minister of Finance signed the Contract with me, without reserves.

On the 15th he demanded from the Imperial Ottoman Bank the first payment of £ T. 140,000 on execution of the Contract. On the 16th he withdrew a further sum of £ T. 40,000; no clearer proof could be afforded that the question was finally settled, and that no further formalities were required.

On the 16th April, however, the Sultan sent word to the Porte that he required further explanations, and that he intended to withdraw his Iradé if these explanations were not of a nature to satisfy him.

I submit that such action violates a Contract signed by a Minister specially authorized by Imperial Iradé, and that important British interests are thereby affected. I venture to appeal to Lord Salisbury for support at Constantinople, and to request that instructions may be sent to Sir William White to represent to the Porte the iniquity of a refusal to execute the obligations assumed in certain clauses of a bilateral Contract after having enjoyed the advantages obtained under other clauses of the same Agreement.

Yours very truly,
(Signed) EDGAR VINCENT.

Inclosure in No. 9.

Letter addressed to M. Ribot.

M. le Ministre, *Paris, le 24 Avril*, 1890.

NOUS prenons la liberté de venir exposer à votre Excellence des faits qui viennent de se produire à Constantinople, et qui portent aux intérêts qui nous sont confiés et dont le Gouvernement de la République a bien voulu, plus d'une fois, prendre la défense, le préjudice le plus grave.

Depuis plusieurs semaines la Banque Impériale Ottomane traitait avec le Gouvernement Impérial Ottoman un projet financier ayant pour double but la conversion des obligations Ottomanes Privilégiées 5 pour Cent, et l'émission d'un emprunt nouveau de £ T. 5,000,000.

L'affaire avait été examinée à plusieurs reprises par le Conseil des Ministres, et approuvé par lui dans sa séance du 2 Avril.

Le projet fut envoyé au Palais Impérial le 3 Avril, et Sa Majesté Impériale le Sultan, après en avoir fait un minutieux examen, le retourna au Conseil des Ministres en demandant certaines modifications, et notamment l'élévation à 76 pour cent du prix de 75 pour cent, auquel le Syndicat que nous représentons avait consenti à prendre ferme une portion importante de l'emprunt nouveau.

Pour tenir compte de la volonté souveraine, Sir Edgar Vincent, notre Directeur-Général, accepta ce changement, et le 9 Avril, le Conseil des Ministres renvoya au Palais le projet modifié en conformité du désir Impérial.

Le 12 Avril un Iradé Impérial était promulgué, approuvant la combinaison et autorisant le Ministre des Finances à signer le Contrat.

Le 14 Avril le Ministre des Finances, dûment autorisé par cet Iradé, signa le Contrat avec le Représentant de la Banque Impériale Ottomane et sans réserve d'aucune sorte.

Tout était donc en règle, et le 15 Avril la Banque Impériale Ottomane, sur l'invitation du Ministre des Finances, se faisait un devoir, en exécution même du Contrat, de faire au Trésor un premier versement de £ T. 140,000.

Le lendemain, 16 Avril, le Ministre des Finances lui demandait d'urgence un second versement de £ T. 40,000 que notre établissement s'empressait également d'effectuer.

Quelques heures après, notre Direction était informée que Sa Majesté Impériale le Sultan, à la suite de rapports qui lui avaient été remis, avait suspendu l'exécution de l'Iradé promulgué le 14, et que le Conseil des Ministres était saisi d'un ordre souverain lui enjoignant d'examiner à nouveau la question pour dissiper les doutes que l'on avait fait naître dans l'esprit de Sa Majesté Impériale.

Par ce fait le Contrat que notre établissement avait conclu en la forme définitive avec le Gouvernement Impérial et dont l'incontestable validité était attestée par l'exécution même qui nous en avait été réclamée, est aujourd'hui mis en doute et il en peut résulter le plus grand dommage pour les intérêts Français importants qui sont engagés dans cette opération.

Nous venons donc demander à votre Excellence de vouloir bien attirer télégraphiquement l'attention de l'Ambassadeur de la République à Constantinople sur cette situation et lui donner comme instructions de faire valoir auprès du Gouvernement Impérial Ottoman l'intérêt qu'il y a pour lui à mettre fin à une situation qui, en se prolongeant, porterait à son crédit une atteinte des plus sérieuses.

Veuillez, &c.

No. 10.

The Marquis of Salisbury to Sir W. White.

(No. 23.)
(Telegraphic.) P. *Foreign Office, April* 25, 1890, 5 P.M.

LETTER received from Sir E. Vincent stating that Sultan has recalled Iradé respecting conversion.

This repudiation of a Contract already signed and acted upon cannot fail to exercise most injurious effect on Turkish credit, and you might point this out in the proper quarter.

No. 11.

Sir W. White to the Marquis of Salisbury.—(*Received April* 26.)

(No. 26.)
(Telegraphic.) P. *Constantinople, April* 26, 1890.

THE facts bearing on the case referred to in your Lordship's telegram No. 23 of yesterday's date are represented here in a somewhat different light.

It is urged that the arrangement under which the Bank has advanced money to the Treasury has never been completed as a Contract, on account not only of the absence of the Imperial sanction, as well as because there are still questions awaiting settlement between the Sublime Porte and foreign bondholders, and because, as it appears, no date was ever inserted in the document signed with the Minister of Finance.

The examination and consideration of this arrangement, and all questions connected with it, are still proceeding; and it appears to me that it is unadvisable for any Embassy to express an opinion where such a mass of different details are involved, at any rate, at this stage of the negotiations.

The fact that there has been much speculation on the Bourse, and that exceedingly unpleasant comments might be made on any intervention, would seem to render any such action still less desirable.

No. 12.

Sir W. White to the Marquis of Salisbury.—(*Received April* 27.)

(No. 27.)
(Telegraphic.) P. *Constantinople, April* 27, 1890.

WITH reference to the conversion of the Ottoman Loan, forming the subject of your Lordship's telegram to me No. 23 of the 25th instant, the Contract can now be signed in proper form, the Sultan having issued an Iradé this morning sanctioning its conclusion.

No. 13.

Foreign Office to Sir E. Vincent.

Sir, *Foreign Office, April* 29, 1890.

I AM directed by the Marquis of Salisbury to inform you, with reference to your letter of the 24th instant, that Her Majesty's Ambassador at Constantinople reports that the Imperial Iradé sanctioning the conclusion of the Contract for the conversion of the Turkish Loan was issued on the 27th instant.

I am, &c.
(Signed) P. CURRIE.

No. 14.

Sir W. White to the Marquis of Salisbury.—(*Received May* 16.)

(No. 196.)

My Lord, *Constantinople, May* 8, 1890.

I HAVE the honour to inclose herewith a copy of a despatch addressed to me by Mr. Law, inclosing a Memorandum accompanied by an Appendix on the recent conversion of certain bonds of the Ottoman Government and the creation of new ones.

This arrangement, which was delayed in its final conclusion, created, as your Lordship is aware, a large amount of interest both here and elsewhere.

I have, &c.

(Signed) W. A. WHITE.

Inclosure 1 in No. 14.

Mr. Law to Sir W. White.

Sir, *Constantinople, May* 2, 1890.

I HAVE the honour to inclose a communication on the important financial transaction dealing with existing bonds of the Ottoman Government, and creating new ones, the formalities in connection with which were yesterday finally concluded.

The scheme is at once bold, comprehensive, and ingenious, and testifies to the high financial ability of its originators.

Briefly, it deals with some 90,000,000*l.* of different stocks, and provides for the conversion of Priority bonds, the acceleration of amortization of Series bonds, the conversion and unification of the Internal Debt, and the raising of new money, all these operations being undertaken without any additional charge upon the Ottoman revenues.

There can be no question but that the arrangement is highly advantageous, both to the Ottoman Government and to the Priority bondholders. Local opinion differs much as to the effect of the transaction on the value of the Series bonds, but, as I have pointed out in my Memorandum, this is a question on which the opinion of financial experts is of little value. It will shortly be decided by its effect when completed and understood on the market price of the bonds, and at present it would seem that, rightly or wrongly, the decision is likely to be favourable, and that, therefore, the arrangement will prove profitable to the Series bondholders also.

The question has been raised as to the power of the Council for the administration of the Public Debt to sanction such a scheme. The Decree of 1881 sanctioning the powers of the Council does not appear to contemplate any such transaction, but, on the other hand, if it is authorized by the Committee of Foreign Bondholders who made the original arrangement with the Ottoman Government, and have since continually acted in the name of the bondholders, it would appear difficult for a minority of dissatisfied bondholders, if any such exist, to take any effective action in opposition to their Representatives.

I have, &c.

(Signed) E. Fg. LAW.

Inclosure 2 in No. 14.

Memorandum on Arrangements connected with the Conversion of Priority Bonds and Turkish Internal Debt, and the raising of a New Loan.

THE amount of the outstanding Priority bonds is 5,841,000*l.* The interest at present payable is 5 per cent.

It is proposed to convert these bonds at 75, and to pay 4 per cent. on the new bonds. The amount of the new stock to be thus created will be 7,788,000*l.*, redeemable in forty-three years.

The service of the existing Priority bonds now requires for interest and amortization an annual sum of 536,363*l.* from the ceded revenues administered by the Council of the Public Debt, but under the Conversion scheme the annuity required for interest and amortization will be only 389,400*l.*

Consequently, the conversion will liberate for the period of sixteen years an annuity of 146,963*l.*, which would have been required under the old arrangement for the redemption of the whole of the Priority bonds. This annuity, deducting certain expenses, is estimated at 145,000*l.*, and it is proposed to devote this amount to the amortization of that portion of the Public Debt known as the Series bonds during the whole term of forty-three years affected by the new scheme, and to apportion it as follows, viz., 10,000*l.* per annum to the amortization of Series A, and 45,000*l.* per annum to amortization of each of the Series B, C, D.

Under the old arrangement the whole amount of 536,363*l.* now devoted to the service of the Priorities would on their extinction in sixteen years have become available during the second term of twenty-seven years for the service of the Series, and according to the Decree of 1881 regulating its distribution, one-fifth of this annuity, or 107,233*l.*, would have been employed for amortization, and four-fifths, or 429,130*l.*, would have been available for increasing the interest payable on the Series. Under the new arrangement these annuities of 107,233*l.* for amortization and 429,130*l.* for interest disappear, and are replaced by an annuity of 145,000*l.* for amortization only, plus, for the same purpose, an annuity equal to 5 per cent. on the amount of the annuity of 145,000*l.* during the first sixteen years.

The annual amount of 536,363*l.* devoted to the general service of the debt remaining fixed, the effects produced by the proposed change in the manner of employing it are the points for consideration, and it must be borne in mind that there are *three* distinct interests involved, viz., that of the Ottoman Government, that of the holders of Priority bonds, and that of the holders of Series bonds.

The first important fact to be observed is that the charge on the general revenues remaining the same, an increase or decrease in the amount of interest payable on the bonds does not in any way affect the interests of the Ottoman Government. On the other hand, the Ottoman Government profits directly by any acceleration of amortization of the debt, and it will be seen that the change proposed in the employment of the annuity permits of a more rapid amortization of the capital of the Series.

The first point, therefore, to be determined, is the exact result of the operation as regards acceleration of the amortization of Series during the term of forty-three years, it being remembered that, with or without conversion, the debt on the Priority bonds will be extinguished during that period.

If the rate of interest be taken at 5 per cent. and present cash values be taken as the basis of comparison, this problem may be stated thus:—

Without conversion—

First period of sixteen years, no amortization.

Second period of twenty-seven years, annuity for amortization 107,000*l.*

Let present value of this annuity with interest accumulated at 5 per cent.=a.

With conversion—

First period of sixteen years, annuity for amortization 145,000*l.*

Let present value of this annuity=b, and let sum which can be amortized=x.

Second period of twenty-seven years two annuities for amortization:

First annuity, 145,000*l.*

Second annuity, 5 per cent. on x.

Let present value, first annuity=c.

Let present value, second annuity=d.

Hence proposed operation gives both to the Turkish Government and to the Sinking Fund for amortization of Series bonds a profit which, reduced to present cash value, is $b+c+d-a$=2,976,885*l.*

It may be objected to the above calculation that as amortization is effected by purchase and not by drawing, the amounts which can be amortized by the annuity will depend on the variations in the market price of the bonds. This is true, and this consideration renders almost valueless the many calculations which have been made on this subject based on hypothetical market prices of the bonds at future dates. It appears to me, however, that if throughout actual cash values be taken, with interest at 5 per cent., which is a trifle under the average rate now produced by the total existing capital of the Series Debt calculated on present market rates, a perfectly fair basis of comparison is obtained.

We have now to consider the cash value of the increased interest which, without conversion, would, during the second term of twenty-seven years, accrue to the holders of unextinguished bonds of the A, B, C, and D Series.

Without conversion—

During the second period of twenty-seven years the holders of unextinguished bonds would profit by such increase of interest as would be provided by an annuity of 429,000*l.*

Let the present cash value of this annuity, calculating interest at 5 per cent.=*e*.

With conversion this annuity will be lost to the Series bondholders, and consequently the present value of the prospective loss to the Series bondholders=*e*= 2,877,714*l.*

In connection with the above calculation it must be pointed out that, as in any case, with or without conversion, Series A of the bonds would be extinguished during the first period of sixteen years, the interest of the holders of these bonds is not affected by the existence or otherwise of the annuity during the second period of twenty-seven years.

As regards the bonds of the B, C, and D Series, it must be observed that, as against the prospective loss of increased interest, the holders of these bonds have an immediate gain in the increased price of their bonds, motived by their earlier amortization. This gain of the B, C, and D bondholders is immediate and definite, and not dependent on any such circumstances as, during the course of the next forty-three years, may affect the prospective gain of increased interest. It is, however, impossible to reduce this immediate gain of the B, C, and D bondholders to a mathematical calculation, as it depends on such rise in the prices of the bonds as may be induced by the proposed operation.

It is, however, worthy of note that *without conversion* the sinking fund for the Series bonds would have received, from the ceded revenues, by annual instalments, during the period of forty-three years affected, a total sum amounting, with accumulated interest at 5 per cent., to 5,849,594*l.*, whereas *by the Conversion scheme*, the annual payments to the sinking fund, with similarly accumulated interest, will, during the same period, amount to a total of 20,734,029*l.*, being a larger amount by 14,884,434*l.* It is this increase of payments to the sinking fund, which, notwithstanding the considerable prospective loss of interest, is evidently valued by the majority of the bondholders, and the value of this accelerated amortization was to some extent discounted by the market in a rise of prices prior to, and in anticipation of, the conclusion of the arrangement, though time can alone show what will be the full actual results.

It is to be observed that the judgment of the most capable financiers as to the advantage of the operation is of little value, as the result will be established by variation in the prices of the stock, influenced by the opinion of the majority of holders and dealers, an opinion which may quite possibly differ from the more correct appreciation of financial specialists. That at present the majority consider that such a Conversion scheme will prove advantageous is clearly proved, by the comparison of the prices of the bonds, at different dates, rising as they approach amortization, and by the comparison of the prices of the various Series at the same date, the difference in these prices being evidently motived *only* by the difference in their respective periods required for their amortization, the rate of interest on all the Series being and remaining the same.

I subjoin the London Stock Exchange quotations for the 27th April, 1889, and for the 28th April, 1890, which are of interest from this point of view, and in which the difference of price for the different Series is very remarkable :—

	April 27, 1889.	April 28, 1890.
Turkish bonds—		
Series A	29¼	39⅝
„ B	17⅛	24⅛
„ C	16⅜	18⅝
„ D	16⅞	18 5/16

I now pass to the consideration of the effect of the conversion of the Priority bonds. I have already pointed out that, although the nominal capital of these bonds is increased by the important sum of approximately 2,000,000*l.*, still, as the general manipulation under the new scheme enables this sum to be amortized and interest to be paid without any fresh call on the Ottoman revenues, it is clear that the Ottoman Government neither gains nor loses by the transaction, and the interests of the Priority bondholders have alone to be considered.

As regards these Priority bonds, the operation is very simple; 5,841,000*l.*, bearing interest at 5 per cent. and amortizable in sixteen years, are converted into 7,786,000*l.*, bearing interest at 4 per cent. and amortizable in forty-three years. The price of the new issue is fixed at 75, and the old bonds will be taken in exchange at par. The result will therefore be that, though the rate of interest is nominally reduced, the bondholder will actually receive ¼ per cent. more than before conversion; and, further, will, when the date of amortization arrives, receive 100*l.* for every bond which cost him 75*l.*

The operation here is the converse of that with the Series bonds. The interest is slightly increased, but the amortization is considerably postponed, and to lead the bondholders to regard such an arrangement favourably, it was necessary to offer them considerable inducements. That the inducements offered are considered sufficient is proved by the fact that the bonds which stood at 91 last October, when the conversion was suggested, are now at par.

Finally, there remains to be considered the conversion of the Internal Debt and the creation of new bonds for £ T. 5,000,000 in connection with this operation. These new bonds are to bear interest at the rate of 4 per cent., with a sinking fund of 1 per cent. Of these £ T. 5,000,000 of new bonds, £ T. 2,500,000 will be employed for the obligatory conversion of some £ T. 480,000 of bonds known as the Dahlieh Debt and the balance for the optional conversion of something over £ T. 2,000,000 of Sehim bonds; £ T. 1,500,000 is taken firm at the price of 76 by a Syndicate in which it is understood that some of the larger holders of Series bonds are deeply interested, and about £ T. 1,000,000 of bonds will remain in the portfolio of the Minister of Finance at his disposal.

The Dahlieh bonds, which represent the balance of a special internal loan made shortly after the war, were intended to receive 6 per cent. interest, and to be amortized by a 4 per cent. sinking fund. The Sehim bonds, which were issued chiefly in settlement of claims for pensions and unpaid salaries, nominally yield 10 per cent. interest, but their amortization was not provided for. The payments on both classes of bonds have fallen greatly into arrear, and Sehims have till now scarcely realized a market value. The annual charge, which should have been met by the Ottoman revenues on account of the Dahliehs and Sehims, was about 280,000*l.*, whereas the total charge for the £ T. 5,000,000 new bonds for both interest and amortization will be only £ T. 250,000. Thus a slight saving is secured for the revenue, together with the advantage of the cash which may be realized by putting the new bonds on the market. This profit to the Ottoman Government is secured at the direct expense of the holders of Dahlieh and Sehim bonds, but whereas these creditors have hitherto received but small payments on account of their claims, they will now be given a real and marketable security, the interest and amortization of which is specially guaranteed by the tithes of the Vilayet of Broussa, and of certain sandjaks of the Province of Angora, besides, in case of necessity, drafts on the customs revenue.

In conclusion, it is to be noted with satisfaction that the credit of the Ottoman Government has sufficiently improved to permit, though certainly under exceptional circumstances, of the raising of a sum of £ T. 1,500,000 at 4 per cent. at an issue price of 76. This is an achievement which must certainly be most gratifying to the Minister of Finance, whose endeavours to effect economy and reform are evidently appreciated in the European money market. The powerful Syndicate who have undertaken the carrying out of the operations composing this comprehensive scheme of conversion, amortization, and raising new funds, are doubtless satisfied with their bargain. The only immediate danger which appears likely to threaten the value of the new bonds is the possibility of the million which remains in the hands of the Minister of Finance being suddenly placed on the market at a price which would injuriously affect the value of those now issued; but as long as the present Minister remains responsible for the financial transactions of his Government, it may safely be assumed that his appreciation of the irreparable injury which would be done to Ottoman credit by any false move of this nature will guarantee the interests of the new bondholders.

N.B.—The calculations for the values of the annuities and compound interest have been worked out from Violeine's Formulæ and Tables published in Paris in 1885.

Appendix.

Calculations of Annuities and Interest to obtain Results indicated in accompanying Memorandum.

MANIPULATION OF SERIES BONDS.

Without conversion—

First period of 16 years, no amortization.

Second period of 27 years, annuity for amortization = £107,000.
Let present value of this annuity, interest at 5 per cent. = a.
Then a = present value £107,000 × 14.643 receivable 16 years hence.
= £1,560,801 × .4581
= 717,771.5381.

With conversion—

First period of 16 years, annuity for amortization = £145,000.
Let present value of this annuity with interest at 5 per cent. = b.
Then b = £145,000 × 10.8378
= £1,571,481.

Second period of 27 years, two annuities for amortization.
1st annuity = £145,000 for 27 years commencing 16 years hence.
Let present value, 1st annuity = c.
Then c = £145,000 × 14.643 × .4581
= 972,653.9535.

Let the sum which can be amortized by an annuity of £145,000, for 16 years, with interest at 5 per cent. = x.
Then x = £145,000 × 23.6575
= £3,430,337.5.

Let d = present value of an annuity of 5 per cent. on x for 27 years, commencing 16 years hence.
Then d = £171,516,875 × 14.643 × .4581
= £1,150,522.2729.

Hence result as regards acceleration of amortization by proposed operation = $b + c + d - a$
= £1,571,481 + £972,654 + £1,150,522 − £717,772
= £2,976,885.

Again without conversion—

Second period of 27 years, the Series bonds would receive an increase of annuity for interest = £429,000.
Let value of this annuity = £429,000 × 14.643
= £6,281,847.
Let e = present value of this annuity commencing 16 years hence.
Then e = £6,281,847 × .4581
= £2,877,714.1107
= present value of prospective loss of interest to Series bondholders.

Finally, as regards the actual amounts which, under the two different arrangements, the ceded revenues will, during the whole period of 43 years, provide for the amortization of the Series bonds:—

Without conversion—
An annuity of £107,000 will be provided for 27 years.
If interest be taken at 5 per cent., this annuity will amount to £107,000 × 54.6691
= £5,849,593.7.

With conversion—
An annuity of £145,000 is provided for 43 years.
If interest be taken at 5 per cent., this annuity is = £145,000 × 142.9933
= £20,734,028.5.

Hence increase of Sinking Fund for amortization by conversion is £20,734,028 − £5,849,594
= £14,884,434.

No. 15.

Mr. O'Conor to the Marquis of Salisbury.—(*Received June* 19.)

(No. 76. Confidential.)
My Lord, *Sophia, June* 14, 1890.

IN reply to your Lordship's despatch No. 37 of the 10th instant, I had the honour to telegraph to your Lordship this afternoon that the Bulgarian Government had paid the Eastern Roumelian annuity to the Ottoman Government.

M. Stambouloff was quite aware of the unfavourable impression which the cessation of this payment would make upon the foreign bondholders of the Turkish

Debt, and I believe he counted upon their influence being brought to bear, under threat of a stoppage of the annuity, upon the Ottoman Government, and thus wringing a concession in the matter of the nomination of the Bulgarian Bishop at Uskub.

I doubt, however, whether any representations from the foreign bondholders of the Ottoman Public Debt will have the weight they deserve with M. Stambouloff, owing to the fact that the Bulgarian Government consider that the promises of financial support which they lavished on the occasion of the negotiations for the resumption of the payment of the tribute were painfully falsified on subsequent occasions.

I have, &c.
(Signed) N. R. O'CONOR.

No. 16.

Mr. Fane to the Marquis of Salisbury.—(*Received July* 2.)

(No. 287.) *Therapia, June* 27, 1890.
My Lord,

WITH reference to Sir William White's No. 152 of the 8th April last, I have the honour to inclose herewith a copy of a note which was addressed by the Russian Ambassador here to the Minister of Foreign Affairs on the 16th instant respecting the payment of the arrears of the war indemnity debt.

M. de Nélidoff declines to accept the mode of payment suggested by the Porte in Saïd Pasha's last note on the subject, and, in a menacing manner, summons the Ottoman Government to come to an immediate settlement in the way prescribed by the Ambassador in his note of the 10th May last.

This present note must be doubly embarrassing to the Sublime Porte now that it is confronted with the demands of the Bulgarian Memorandum, and forebodes no good to the chance of a favourable reply being returned to the latter.

I have, &c.
(Signed) EDMUND FANE.

Inclosure in No. 16.

M. de Nélidow to Saïd Pasha.

M. le Ministre, *Ambassade de Russie, Buyukdéré, le* 4 (16) *Juin*, 1890.

J'AI eu l'honneur de recevoir la note de votre Excellence, en date du 5 Juin courant, au sujet de l'indemnité de la guerre.

Il en ressort que malgré les assurances réitérées et positives de la Sublime Porte, que grâce aux mesures adoptées aucune irrégularité ne se produirait plus dans ce service à l'avenir, le désordre est allé toujours croissant jusqu'à obliger le Gouvernement, à en croire la note précitée, de recourir à la voie judiciaire pour avoir raison des fermiers des dîmes qui n'auraient pas tenu leurs engagements. Votre Excellence ajoute que si d'ici au mois d'Octobre les arriérés ne sont pas éteints, le Trésor Impérial réglera le solde.

Je constate avec satisfaction que le Gouvernement Ottoman reconnaît lui-même la nécessité de combler au moyen de versements extraordinaires du Trésor le déficit chronique du produit des annuités stipulées.

Je voudrais pouvoir espérer aussi que la Sublime Porte prendra enfin des mesures vraiment efficaces pour donner au service de l'indemnité de guerre une assiette plus large et solide.

Quant au mode proposé par votre Excellence pour le règlement de compte de l'année passée, il ne saurait en aucune façon être accepté par le Gouvernement Impérial.

L'Exercice 1889 a été clos, ainsi que le relève ma note du 12 (24) Janvier, 1890, avec un déficit de £ T. 121,118 75 p. Ce chiffre constitue un découvert qui ne peut être comblé que par des ressources extraordinaires, toutes les rentrées effectives de l'année 1890 sur les revenus affectés à l'indemnité de guerre étant de droit portés à l'actif de l'Exercice courant.

J'ai donc l'honneur de renouveler d'urgence auprès de votre Excellence la demande contenue dans ma note du 28 Avril (10 Mai), à savoir, que la Sublime Porte veuille bien régler sans délai la dette sus-indiquée, à défaut de quoi le Gouvernement Impérial se

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verrait dans la nécessité de pourvoir lui-même à son remboursement sur les sommes que le Gouvernement Ottoman a à toucher à l'étranger en vertu de récentes opérations financières.

Veuillez, &c.
(Signé) NÉLIDOW.

No. 17.

Mr. Caillard to the Marquis of Salisbury.—(*Received in Department, September* 20.)

My Lord, *Constantinople, September* 8, 1890.

IT may interest your Lordship to hear of the financial projects which I informed you some time back we had in view, and which have now taken pretty definite shape. These consist chiefly of three different schemes:—

1. The conversion of the loans secured on the Egyptian tribute, known as "the Tribute Loans."

2. The conversion of the Customs Loan.

3. Certain modifications in the Charter of the Imperial Tobacco Régie Monopoly Company.

The first scheme consists of two distinct parts, both of which would bring considerable profit to the Turkish Treasury, namely:—

(*a.*) The conversion of the 1854, 1871, and 1877 Loans.

(*b.*) The conversion of the 1855 Loan (guaranteed by England and France).

The latter, however, involves various questions between the English and Turkish Governments which will certainly require a good deal of discussion, and I think, therefore, that it is more practical for us to deal only with the 1854, 1871, and 1877 Loans as a certainty.

The following Table shows the present outstanding amounts and annual charges for these loans:—

Year.	Outstanding Amount.	Interest.	Sinking Fund.	Annual Charge.
	£	Per cent.	Per cent.	£ s. d.
1854	1,640,900	5	½	99,511 11 7
1871	5,378,700	4¼	..	229,737 14 6
1877	4,376,300	5	½	280,622 18 4
Totals ..	11,395,900			609,872 4 5

If these loans be converted into a uniform 4 per Cent. stock, with ½ per cent. sinking fund, which would, I think, if the market conditions continue their present favourable movement, as seems very probable, be taken firm at 90, the capital necessary to pay them off at par would be 12,662,110*l.*, entailing an annual charge of 538,139*l.*, and leaving a net annual profit of 71,732*l.*, which, capitalized at the same rate, would leave a cash profit to the Porte of 1,519,037*l.* I am myself rather in favour of no sinking fund, but only a reserved right, on the part of the Government, to pay off the new bonds at par after a given number of years. In that case, the cash profit of the Government would become 2,326,220*l.*

Agop Pasha has rather exaggerated views as to conversion possibilities, and is talking of a 3½ per Cent. stock at the same rate as the Egyptian Privileged stock. I do not, however, think that this is a serious difficulty; he can be made reasonable by argument.

A more serious difficulty is the evident wish of the Egyptian Government (not yet officially expressed) to share in the profits of the conversion. To this the Porte would never consent, and I think rightly. It is true that the conversion is rendered so advantageous by the improvement of Egyptian credit, with which certainly the Turks have had nothing to do. But this is really outside the question, the tribute having been fixed once and for all at a sum quite irrespective of Egyptian credit. The Turks are, therefore, at liberty to employ the whole of that tribute in whatever manner they choose, and can direct the Khedive to pay it where they choose, for instance, into the Bank of England. Apart, however, from the arguments which might be adduced on either side in this respect, the Egyptian Government is

very desirous at this moment to come to an arrangement with the Porte on the "Reftieh" system (Customs), and since, if their demands on this subject be complied with, they would be very considerable gainers, I think we may induce them to forego any claim they may think they have on the conversion for concessions in the matter of the "Reftieh."

As to the disposal of the profits arising from this conversion, I am glad to say that Agop Pasha is now fully convinced of the necessity of executing the idea of which I wrote to your Lordship a long time back, namely, of setting aside a considerable sum, say, 1,000,000*l.*, as a reserve fund, or "kriegscasse," which could not be touched without special authority from the Sultan, and would be intended for any special and great emergency, such, for instance, as mobilization on declaration of war. Both Agop Pasha and the Grand Vizier have promised that they will endeavour to carry this idea into effect; if they succeed, I believe that Turkey might be considered a more powerful factor in European politics than she has been for a long time past.

I do not propose to trouble your Lordship with any remarks on the two other schemes in view to-day, in order not to weary you with too long a letter; the Customs Loan conversion would, moreover, bring no particular profit to the Government, but would serve more to keep Turkish finance well before public attention and in a favourable light. The third scheme is, however, very important.

I have, &c.
(Signed) VINCENT CAILLARD.

No. 18.

Mr. Portal to the Marquis of Salisbury.—(*Received September* 22.)

(No. 265.) *Cairo, September* 14, 1890.

My Lord,

YOUR Lordship is aware that negotiations have been in progress for some time past between Turkey and Egypt with regard to the abolition of the "raftieh" system. An agreement was at length come to between the two Governments, but was not put in force pending the settlement of certain outstanding details. A few weeks ago M. Ornstein, the Assistant Director of Egyptian Customs, was sent to Constantinople to negotiate a final agreement about these details, and it was expected that upon the conclusion of the arrangement the annual gain to the Egyptian Revenue would amount to about 60,000*l.* or 70,000*l.* a-year.

A few days ago a letter was received by Riaz Pasha from M. Ornstein, copy of which is inclosed herewith, from which it would appear that the Grand Vizier has the intention of mixing up the question of the "raftieh" abolition with the totally distinct question of the Turkish Tribute Loan, for which, dependent as this loan is on the punctual payment of the Egyptian tribute, and consequently, in some degree, on Egyptian credit, the consent and connivance of Egypt will be necessary.

Although the question of Egyptian assistance in effecting the conversion of the Tribute Loan, and the price to be paid for it, is now for the first time raised officially by the Grand Vizier, it did not come altogether as a surprise to the Khedivial Government, as the subject had been discussed in Europe by Mr. Palmer and Sir Edgar Vincent, and had formed the subject of recent unofficial correspondence between them; Sir E. Vincent representing the Ottoman Bank, to whom the Egyptian tribute is chiefly pledged.

In these conversations and correspondence Mr. Palmer had informed Sir E. Vincent that he estimated the value of Egyptian assistance and Egyptian credit in the matter of the conversion of the Tribute Loan, as being worth about 30,000*l.* a-year, which it was suggested might be given to Egypt as her share in the profits arising from the conversion.

The Grand Vizier has now put forward a new proposal by which the Porte would undertake to give a still more advantageous arrangement to Egypt about the "raftieh" question, if the latter will agree not to make difficulties, but to be friendly about the tribute conversion. His Highness points out that to give Egypt a direct pecuniary share in the profits arising from the conversion would be equivalent to a reduction of tribute, a proposal which could never be listened to by the Porte for a moment. Mr. Palmer, however, estimates that the "raftieh" scheme now offered by the Grand Vizier would raise the annual Egyptian increase of income from 60,000*l.* or 70,000*l.* to about 90,000*l.* or 100,000*l.* a-year. Egypt would thus indirectly get the 30,000*l.*

a-year, at which price Mr. Palmer originally estimated the Egyptian consent to and assistance in the conversion. The amount of profit estimated above must be regarded as only approximate, as a calculation based on the figures of the last five years is now being made by the Custom-house authorities, but is not yet completed.

If Egypt agrees to give her assistance and tacit consent to the conversion of the Tribute Loan, it will, of course, involve her pledging herself to continue the payment of the tribute to Turkey for a considerable number of years. Egypt is already pledged to certain bankers, who negotiated the Tribute Loan, to continue the payment for a certain period, I think about thirty or forty years more, but, on the conversion of the loan, this period will probably have to be extended.

For these reasons, and in view of the position of Her Majesty's Government with regard to Egypt, Riaz Pasha was of opinion that the Egyptian Government should not make any agreement to help Turkey in the matter of the conversion without first consulting your Lordship and ascertaining whether Her Majesty's Government have any objection in principle to Egypt binding herself to pay the tribute for a considerable number of years. If Her Majesty's Government admit the principle as being harmless, the rest will be simply a question of arrangement of price between the Porte, the banks, and the Egyptian Government.

Until the figures of the last years have been carefully examined, and the financial results of the new "raftieh" proposal accurately ascertained it is impossible to say what the exact gain to Egypt will be, but, as far as can be roughly estimated at present, the whole scheme would appear to be a favourable one to this country.

Your Lordship is, of course, aware that the tribute paid for Zeyla is quite distinct, and is not pledged to the service of the Tribute Loan, and has not in fact been paid at all for the last two years, but the tributes for Massowah and Suakin are included in the general Egytian tribute, and are affected to the debt.

I have, &c.
(Signed) G. H. PORTAL.

Inclosure in No. 18.

M. Ornstein to Riaz Pasha.

Constantinople, le 3 Septembre, 1890.

M. le Ministre,

J'AI l'honneur d'informer votre Excellence que son Altesse le Grand Vizir m'a mandé auprès de lui le Jeudi dernier, 28 Août.

Il m'a, tout d'abord, dit qu'il avait connaissance des changements que l'Administration des Contributions Indirectes de l'Empire croyait devoir apporter au projet d'arrangement contenu dans la lettre Vizirielle du 12 Ramadan, 1307; que les pertes que devait encourir le Trésor Impérial, au profit de l'Égypte, par suite de l'application de cet arrangement, étaient différemment évaluées à 70,000*l.*, 80,000*l.*, ou 90,000*l.*; que les modifications qu'il s'agissait d'introduire maintenant étaient de nature à porter, à un chiffre plus élevé encore, les bénéfices qu'en retirerait l'Égypte et que c'étaient là des sacrifices très lourds que s'imposait le Gouvernement Impérial et qui réclamaient une compensation.

Son Altesse appuya tout particulièrement sur ce dernier mot et continua en me disant qu'il avait appris que le Gouvernement Égyptien aurait l'intention de demander une part assez sensible dans l'économie qui résulterait de la conversion des emprunts Ottomans garantis par le tribut que le Gouvernement de Sa Majesté le Sultan se proposerait d'effectuer incessamment. Cette demande, ajouta-t-il, équivalait à une réduction du tribut, chose tout à fait inadmissible et qui ne pouvait, il voulait bien l'espérer, émaner sérieusement de Son Altesse le Khédive, de son Gouvernement, ou de ses Conseillers.

Mais, s'il reconnaissait l'impossibilité de placer la question sur ce terrain, il était désireux d'autre part de démontrer à l'Égypte les bonnes dispositions dont il était animé à son égard, et il espérait que, de son côté, l'Égypte nourrissait les mêmes sentiments à l'égard de l'Empire.

Il termina son discours en m'informant qu'il était tout disposé à accorder à l'Égypte toute facilité pour la conclusion d'un arrangement définitif et satisfaisant concernant les "raftiehs," à la condition expresse, toutefois, que le Gouvernement Égyptien renoncerait à son intention de réclamer une part quelconque dans les opérations de conversion qu'on apprêtait à négocier ici avec des établissements

financiers. C'était de cette façon qu'il entendait la compensation à laquelle il faisait allusion au début de sa conversation.

Je répondis au Grand Vizir que j'avais parfaitement compris toutes les considérations qu'il venait de faire valoir. Je lui fis cependant respectueusement observer qu'en ce qui concernait la question des "raftiehs" proprement dite, pour l'arrangement de laquelle j'avais été envoyé, il était de tout intérêt pour la Turquie d'établir un *modus vivendi* basé sur le principe de la perception des droits dans le pays de consommation. Si, en effet, l'on voulait appliquer à l'Égypte, à l'égal des autres ports Ottomans, l'abolition pure et simple des droits intérieurs de douane, le Trésor Impérial pourrait se trouver en présence de pertes considérables par l'introduction en franchise des produits du sol et de l'industrie de l'Égypte qui, munis de cette protection, remplaceraient sur les marchés de la Turquie les produits similaires importés de l'étranger.

En ce qui concernait la seconde question que Son Altesse désirait rattacher à celle des "raftiehs," j'exprimai le regret de ne pouvoir la discuter, attendu qu'elle sortait complètement du cadre de mes attributions; je ne pouvais non plus dire si le Gouvernement Égyptien avait réellement l'intention de demander une compensation directe ou indirecte pour le concours de son crédit dans les opérations de conversion des emprunts du tribut.

Son Altesse me répondit qu'en ce qui touchait la première de mes observations, Sa Majesté le Sultan était moins préoccupé des recettes immédiates du Trésor que de l'avancement des industries du pays pour lesquelles elle était prête à faire de grands sacrifices, et que, par conséquent, les considérations que j'avais fait valoir n'avaient, peut-être, pas toute la valeur que j'y attribuais.

Quant à l'autre question, il ne me l'avait mentionnée que pour que je sois l'interprète auprès de Son Altesse le Khédive et de votre Excellence, des idées qui prévalaient ici à son sujet, mais qu'il se proposait, du reste, d'en faire part officiellement au Gouvernement Égyptien par l'intermédiaire de son Excellence Moukhtar Pacha.

En prenant congé de Son Altesse, elle parut tellement insister sur l'importance qu'elle attachait aux considérations qu'elle venait de me développer que j'ai cru devoir en faire un récit aussi fidèle que possible dans le Rapport spécial que j'ai l'honneur d'adresser à votre Excellence.

Veuillez, &c.
(Signé) J. ORNSTEIN.

No. 19.

Messrs. Matheson and Co. to Foreign Office.—(*Received December* 15.)

3, *Lombard Street, London, December* 13, 1890.

Sir,

REFERRING to our letter of the 13th March last, relative to the cancellation of Mr. Hugh Maclean's Turkish bonds, we have not heard for some time whether any further efforts have been effectual in modifying the answer that has been given.

The owner of the bonds, Mr. Maclean, has died, and his executors have asked us to make a final appeal to you to know whether it is in your power to do anything in the matter.

We shall be much obliged if you will kindly reply to us.

We have, &c.
(Signed) MATHESON AND Co.

No. 20.

Foreign Office to Messrs. Matheson and Co.

Foreign Office, December 17, 1890.

Gentlemen,

WITH reference to your letter of the 13th instant, and to previous correspondence relative to the cancellation of the late Mr. Hugh Maclean's Turkish bonds, I am directed by the Marquis of Salisbury to inform you that there is, in his Lordship's opinion, no probability of any further intervention by Her Majesty's Ambassador at Constantinople proving successful. The answer conveyed to you in my letter of the

11th March last, viz., that due notice was given to the bondholders of the intended conversion, and that the claim cannot be entertained, must therefore be considered as the final decision of the Council of the Administration of the Ottoman Public Debt.

I am, &c.

(Signed) P. CURRIE.